AUSTIN ENERGY'S TARIFF PACKAGE:	§	
2015 COST OF SERVICE	§	BEFORE THE CITY OF AUSTIN
STUDY AND PROPOSAL TO CHANGE	§	IMPARTIAL HEARING EXAMINER
BASE ELECTRIC RATES	§	

REBUTTAL TESTIMONY

OF

ED VAN EENOO

ON BEHALF OF AUSTIN ENERGY

MAY 20, 2016

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EXHIBITS

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Ed Van Eenoo. My business address is Austin City Hall, 301 W. 2nd Street, Austin, Texas 78701.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT POSITION?

A. I am employed by the City of Austin ("City") as a Deputy Chief Financial Officer and Budget Officer.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of Austin Energy ("AE").

Q. DID YOU PREPARE THIS TESTIMONY?

A. Yes. This testimony was prepared by me or under my direct supervision.

Q. PLEASE DISCUSS BRIEFLY YOUR EDUCATIONAL BACKGROUND, PROFESSIONAL EXPERIENCE, AND QUALIFICATIONS.

A. I hold a Master's Degree in Economics and have 16 years of municipal government finance experience. I have been the Budget Officer for the City of Austin since February 2009.

Q. HAVE YOU PROVIDED AN ATTACHMENT THAT DETAILS YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE?

A. Yes. I provide this information in Exhibit EE-1 to my testimony.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS PROCEEDING?

A. The purpose of my rebuttal testimony is to address Austin Regional Manufacturers Association's ("ARMA") recommendation to reduce the General Fund Transfer ("GFT").

II. <u>GENERAL FUND TRANSFER</u>

Q. WHAT DID ARMA RECOMMEND WITH RESPECT TO AUSTIN ENERGY'S GFT?

A. Without suggesting a specific number, ARMA recommends that Austin Energy reduce its GFT from the proposed $105 million.

Q. WHAT DID MR. JOHNSON ON BEHALF OF THE INDEPENDENT CONSUMER ADVOCATE TESTIFY TO REGARDING THE GFT?

A. Mr. Johnson makes several brief points about the GFT. First, he pointed out that "AE is allowed by law to transfer a certain percentage of its revenues to the Austin City Council."[1] Second, he states that the "general fund transfer is analogous to the franchise fees and rate of return that is allowed by the PUC" for investor-owned utilities.[2] Third, Mr. Johnson testifies that the appropriate level of GFT is a decision for the Austin City Council and notes that this decision "will be made on a separate track during the city's budget review process."[3] Lastly, Mr. Johnson recommends

[1] Direct Testimony of Clarence Johnson at 26:3-4 (May 3, 2016).

[2] *Id*. at 26:4-5.

[3] *Id*. at 26:15-16.

that "[t]his decision should be made with the utmost transparency, sufficient public input, and a proper balancing of public interests."[4]

Q. WHAT IS THE GENERAL FUND TRANSFER?

A. The GFT is an annual transfer from AE to the City's General Fund. A municipal government may earn a fair and reasonable return for the risks of owning and operating a utility. In Austin, the GFT is that return.

Q. DESCRIBE THE HISTORY OF THE FINANCIAL POLICIES OF THE CITY AND AE.

A. The City-adopted financial policies set out the requirements related to the City's financial resources, capital structure, funding sources, debt management, debt service coverage, GFT, and reserves. AE's decisions and actions must conform to these financial policies.

The City's established financial policies, including those specific to AE, are designed to ensure prudent management of the City's financial resources. The City reviews the policies annually for compliance and Council approves policy changes and additions as needed. The polices are also intended to help the City and AE achieve strong credit ratings by including financial targets such as rating agency and industry benchmarks of financial health as well as specific covenants stated in the utility's bond ordinances.

Austin Energy's specific financial policies cover debt management, debt service coverage, liquidity and reserves, flow of funds, revenue sufficiency, GFT, and other general policies.

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[4] *Id*. at 26:17-18.

Q. DESCRIBE THE CITY'S FINANCIAL POLICIES RELATED TO THE GFT.

A. The City's GFT policy is based upon the percentage of revenue method, the most common method used by public power. Austin Energy Financial Policy No. 13[5] provides for the calculation of the GFT not to exceed 12% of AE's three-year average revenues, calculated using the current year estimate and the previous two years' actual revenues.

Additionally, AE Financial Policy No. 17 provides that electric rates will be designed to generate sufficient revenue, after the consideration of interest income and miscellaneous revenue to support: (1) the full cost (direct and indirect) of operations, including depreciation; (2) debt service; (3) GFT; (4) equity funding of capital investments; (5) requisite deposits of all reserve accounts; (6) sufficient annual debt service requirements of the Parity Electric Utility Obligations and other bond covenant requirements, if applicable; and (7) any other current obligations.

The GFT Financial Policy is a long-standing financial policy. Prior to 1989, City Council approved the GFT as a stand-alone policy. Then, in June 1989, Council adopted the AE GFT Financial Policy as part of the first citywide Financial Policies. Minor changes to the policy occurred between 1989 and 2002. In the FY 2002 Approved Budget, Council approved AE's GFT Financial Policy utilizing the same policy language as approved in FY 1992. It states:

> The General Fund transfer shall not exceed 12% of Austin Energy's three-year average revenues, calculated using the current year estimate and the previous two years' actual revenues from the City's Comprehensive Annual Financial Report.

This policy language remains unchanged today.

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[5] The current City of Austin Financial Polices are attached hereto as Exhibit EE-2. The Austin Energy Polices are on pages 780-83.

Q. DESCRIBE HOW THE GFT IS CALCULATED.

A. Historically, the GFT was calculated by multiplying the specific transfer rate by AE's three-year average revenue (calculated using the current year estimate and the previous two years' actual revenue from the City's Comprehensive Annual Financial Report). From 1999-2012, the GFT rate was constant at 9.1%, except for in FY 2002 when the GFT was 8.9%.

During the FY 2013 budget process, the GFT calculation was recalibrated based upon a percentage of non-fuel revenue rather than gross revenue. This modification represented a calculation change, not a financial policy change. This change to non-fuel revenues stabilizes the amount of the payment as it will not be subject to market changes in fuel costs, which are out of AE's control.

With the adoption of this modification, a GFT floor was established at $105 million until the 12% transfer rate set in the financial policy generates a GFT above $105 million.

Q. WHY IS THE GFT APPROPRIATE?

A. The GFT allows a municipal government to earn a fair and reasonable return for the risks of owning and operating a utility. Providing a direct benefit to their communities in the form of payments and contributions to local government is common for public power systems.

GFT dollars stay in the community, unlike investor-owned utilities ("IOU") returns that are paid to stockholders in many locations. Austin Energy's GFT helps stimulate the regional economy and helps pay for municipal services including public safety, parks, and libraries. Reinvesting back into the local region and its economy is a benefit of public power.

Q. ARE TRANSFERS TO A CITY'S GENERAL FUND REFLECTIVE OF A LONG-STANDING POLICY IN TEXAS?

A. Yes. Texas Government Code § 1502.059 provides that:

> a municipality and its officers and utility trustees may transfer to the municipality's general fund and may use for general or special purposes revenues of any municipally owned utility system in the amount and to the extent authorized in the indenture, deed of trust, or ordinance providing for and securing payment of public securities issued under [Chapter 1502, Public Securities for Municipal Utilities, Parks, or Pools] or similar law.

Q. HAS THE CITY EXAMINED THE REASONABLENESS OF THE GFT?

A. Yes. The GFT is a long-standing policy of the City Council and thoughtful consideration is given before any change is made. In spring 2010, when Austin Energy indicated the need for a rate increase, the City commissioned a consulting study of transfer from municipal utilities to general government. The resulting report, dated March 17, 2011, *Austin Energy Financial and Performance Review – Analysis of Transfers from Municipal Utilities to General Government,* was prepared by Navigant Consulting and Fox Smolen & Associates, Inc.[6] The report states that the City and Austin Energy have consistently maintained the transfer policy (both in terms of methodology and percentage) and, in fact, have maintained a transfer rate lower than its maximum policy rate of 12%.[7]

Key points in the report's summary statement indicate AE's GFT is similar in methodology to utilities surveyed and that the transfer policy is determined during the budget process. The City has maintained its transfer policy, both in methodology and percentage, and has consistently applied it.

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[6] Attached hereto as Exhibit EE-3.

[7] *See* Exhibit EE-3 at 6.

Most importantly, the report concludes that AE's GFT transfer rate is within a reasonable range when considering the comparable utilities in the survey. The Texas utilities included AE, Georgetown Utility Services, Denton Municipal Electric, College Station Utilities, CPS Energy, and Lubbock Power and Light. The non-Texas utilities were Orlando Utility Commission, City Utilities of Springfield, Gainesville Regional Utilities, and Seattle City Light.

III. CONCLUSION

Q. DO YOU AGREE WITH ARMA'S RECOMMENDATION REGARDING THE GFT?

A. No. I do not agree with ARMA's recommendation for two reasons. First, ARMA does not provide a GFT amount it would deem reasonable. They simply recommend that the amount should be reduced. Without a recommended amount, I cannot evaluate ARMA's recommendation. Second, ARMA provides no evidence to substantiate the need for a reduction in the GFT. Without any evidence to evaluate their claim, I cannot support ARMA's recommendation.

AE's GFT is authorized by state law, meets the City's financial policies, is included in the City's budget for FY 2016-17, and is a predictable, recurring expense for which AE can plan. Based on these points, the Impartial Hearing Examiner should disregard ARMA's recommendation and maintain AE's proposed $105 million GFT.

Q. PLEASE COMMENT ON MR. JOHNSON'S RECOMMENDATION THAT THE DECISION TO SET THE GFT SHOULD BE MADE WITH THE UTMOST TRANSPARENCY, SUFFICIENT PUBLIC INPUT, AND A PROPER BALANCING OF PUBLIC INTERESTS.

A. I agree with Mr. Johnson that the GFT is an important input for the determination of AE's overall revenue requirement. Likewise, Austin Energy supports the proposition that the GFT be set through a transparent process with input from the public and a balance of public interests.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes.

EDWARD C. VAN EENOO

301 W. 2nd Street ▪ Austin, Texas 78701 ▪ ed.vaneenoo@austintexas.gov

PROFESSIONAL EXPERIENCE

City of Austin, Austin, Texas 2009 – Present

Deputy Chief Financial Officer/Budget Officer 2009 – Present

Provide strategic leadership to a financial services department of 190 employees. Directly responsible for a team of 30 budget analysts and IT staff administering a $3.5 billion annual operating budget and $811 million annual capital budget for the City of Austin. The City has been one of the fastest growing large municipalities in the nation over the past decade and is now the nation's eleventh largest city with a population of nearly 900,000. Played a key leadership role in navigating the City's budget through the Great Recession with no service reductions or employee layoffs.

- Promoted from Budget Officer to Deputy Chief Financial Officer within 4 years as a result of strong leadership skills and creative problem solving ability.
- Responsible for the development and presentation of the City's $3.5 billion operating budget (including a General Fund budget of $854 million) and an $811 million capital budget.
- Coordinate the development, implementation, and ongoing improvement of citywide business plans and performance measures.
- Perennial recipient of the *Distinguished Budget Presentation Award* from the Government Finance Officers Association and the *Certificate of Excellence* from the International City/County Management Association for exceeding the standards established by the ICMA Center for Performance Measurement.
- Created an innovative *Budget-in-a-Box* community engagement activity that received the *Municipal Excellence Award* for communication from the Texas Municipal League in 2014.
- Serve as the City's appointed board member for the $2.1 billion City of Austin Employee Retirement System.

City of Chula Vista, Chula Vista, California 2000 – 2009

Director of Budget and Analysis 2005 – 2009

Directed a team of management analysts administering a $273 million annual operating budget for the City of Chula Vista. During this time the City was one of the fastest growing municipalities in the nation and San Diego County's second largest city with a population of more than 230,000. Successfully managed the City's budget during both periods of rapid economic expansion (a 25% population increase between 2000 and 2005) and contraction (a 30% drop in local property values between 2006 and 2009).

- Progressively promoted within 5 years as a result of exceptional work ethic and demonstrated leadership.
- Responsible for the development and presentation of the City's $273 million operating budget including a General Fund budget of $142 million.
- Initiated the City's *Managing for Results* process designed to better align strategic planning and performance measurement with the City's budget process.
- Served as one of the City's lead negotiators on labor contracts with the City's four bargaining units.
- Directed the City's highly successful Public Facilities Development Impact Fee Program that resulted in the construction of numerous public facilities valued at more than $200 million between 2000 and 2009 including three fire stations, three recreation centers, a police station, a city hall complex, and a corporation yard.

Assistant Director of Budget and Analysis 2003 – 2005

Assisted the Director with planning, organizing, developing and revising a $214+ million operating budget.

- Promoted from Fiscal and Management Analyst to Assistant Director of Budget and Analysis within three years as a result of in-depth knowledge, attention to detail, and highly developed analytical ability.
- Led a top-to-bottom overhaul of the City's budget document that resulted in the City receiving its first ever award for *Distinguished Budget Presentation* from the Government Finance Officers Association.
- Evaluated staff reports and Council agenda statements to ensure that budget priorities were properly executed.

Fiscal and Management Analyst 2000 – 2003

Coordinated and participated in the City's budget development processes by performing budget reviews and analyses, short-and long-term fiscal forecasting, and development of budgeting systems. Participated in highly complex studies related to operational and fiscal analyses.

- Conducted highly complex financial analyses including cost allocation plans, fee studies, and fiscal impact models.
- Performed short-term and long-term forecasting and participated in budgetary planning strategy sessions.
- Analyzed and evaluated the fiscal impacts of new development projects.

Virginia Tech, Blacksburg, Virginia 1995 – 2000

Research Associate and Research Assistant

Served as a Research Assistant (1995 – 1997) and Research Associate (1997 – 2000) during the pursuit of a Master of Science degree in Applied Economics and for two additional years after receiving the degree.

- Developed annual property value assessments for agricultural land in the State of Virginia based on the land's value in use as farmland as opposed to market value for commercial and residential ventures.
- Conducted thesis research on the theoretical and empirical requirements for commodity aggregation.

Peace Corps, Chumani, Kenya 1992 – 1994

Mathematics Teacher

Served as a volunteer high school mathematics teacher in rural Kenya and successfully wrote a grant that allowed the school to obtain and install electricity.

EDUCATION

- Master of Science in Applied Economics, Virginia Tech, Blacksburg, Virginia, 1998.
- Bachelor of Science in Economics, Eastern Michigan University, Ypsilanti, Michigan, 1989.

Financial Policies — 2015-16

OVERVIEW OF FINANCIAL POLICIES

In June 1989, the City Council developed financial policies to ensure that the City's financial resources are managed in a prudent manner. These policies are reviewed annually for compliance. Changes and additions to these policies are approved by Council from time to time.

The following changes were made to the Financial Policies:

- Under General Topics, policy #10 was added to establish and maintain a Capital Rehabilitation Fund to support major maintenance and rehabilitation of non-enterprise department facilities;
- The General Fund Emergency Reserve and Contigency Reserve policies (#s 12 & 13 in FY15), were combined into one Emergency Reserve Fund and the minimum reserve level was changed from a flat $40 million plus an additional 1% of departmental requirements to 6% of total requirement;
- General Fund Financial Policy #14 was added to set the target for total General Fund reserves of at least 12% of total fund requirements; and,
- The Convention Center added six new policies that establish operating and capital reserves, formalize the funding of debt service reserves, set guidelines for the use debt, limit the use of capitalized interest, and define how routine, preventative maintence should be funded.

The City of Austin is in compliance with 101 of the 106 financial policies, as approved. Unless otherwise noted, the FY 2015-16 Budget has been used to determine the current status of the financial policies.

For example, the City:

- Prepared a 5-year financial forecast for fiscal years 2015-16 through 2019-20;
- Maintained reserves in the General Fund and General Obligation Debt Service Fund at designated levels; and,
- Managed the City's investment portfolio in alignment with the policies governing capital preservation, liquidity, asset security, portfolio diversification and return on investment.

The City is not currently in compliance with:

- General Obligation Debt Service Policy #7: In FY12, the City conducted a bond election with 4 years of authorized unissued bonds remaining;
- Austin Energy Policy #16: The Strategic Reserve will not be fully replenished until FY 2017-18;
- Austin Water Policy #11: The calculated quick ratio (Current Assets less inventory divided by Current Liabilities) is 1.49 as of September 30, 2014, instead of the minimum 1.50 prescribed in the policy;
- Austin Resource Recovery Policy #1: Instead of using a separate fund, Austin Resource Recovery utilizes their CIP and operating budgets to provide for the closing and monitoring of the City Landfill; and
- Austin Resource Recovery Policy #2: Austin Resource Recovery Fund anticipates achieving a fund balance which is equivalent to 30 days of budgeted operations and maintenance by FY 2016-17.

Financial Policies — 2015-16

Policy	Current Status

General Topics

Accounting, Auditing, and Financial Planning

	Policy	Current Status
1.	The City will establish accounting practices that conform to generally accepted accounting principles as set forth by the authoritative standard-setting body for units of local government.	In compliance
2.	An annual audit will be performed by an independent certified public accounting firm and an official comprehensive annual financial report (CAFR) shall be issued no later than 6 months following fiscal year-end.	In compliance
3.	The independent certified public accounting firm shall present to the Audit and Finance Committee the results of the annual audit no later than 60 days from the issuance of the City's CAFR.	In compliance
4.	A 5-year financial forecast shall be prepared annually projecting revenues and expenditures for all operating funds. This forecast shall be used as a planning tool in developing the following year's operating budget.	In compliance
5.	The City Auditor's Office shall be responsible for conducting financial and performance audits as set forth in the annual work plan. This work plan will be submitted to the Audit and Finance Committee of the Council for approval. The City Manager shall be responsible for establishing a process to ensure timely resolution of audit recommendations.	In compliance
6.	The City shall provide its share of contributions to the City's three retirement systems in accordance with the State statutes establishing each system.	In compliance
7.	At the direction of the City Council and City Manager, City operations will be performed at the most economical cost while maintaining desired service levels. As one alternative to meet this goal, the City will initiate a competitive process that will allow for periodic analysis of proposals from City departments and from the private sector for purposes of evaluating the cost of performing selected municipal services. All such proposals will be evaluated through an orderly process that will include verification and appropriate classification of all costs.	In compliance
8.	Investments shall be made in conformance with the City's investment policy, with the primary objectives of: · Preservation of capital and protection of principal. · Maintenance of sufficient liquidity to meet operating needs. · Security of City funds and investments. · Diversification of investments to avoid unreasonable or avoidable risks. · Maximization of return on the portfolio.	In compliance

Financial Policies — 2015-16

Policy	Current Status
9. All grants and other Federal and State funds shall be managed to comply with the laws, regulations, and guidance of the grantor, and all gifts and donations shall be managed and expended according to the wishes and instructions of the donor.	In compliance
10. The City shall establish and maintain a Capital Rehabilitation Fund to support major rehabilitation and betterment of non-enterprise department facilities. The City shall set a goal for a target budgeted annual transfer equal to 25% of the annual depreciation expense for building and improvements related to governmental activities as reported in the prior year Comprehensive Annual Financial Report in Footnote 5 Capital Assets and Infrastructure. Uses of this fund may include non-bond funded projects including facility rehabilitation and betterment related to: · Safety and security; · Significant large maintenance projects that extend the asset's useful life; · Energy efficiency improvements; · Renovations to improve space utilization; · Temporary closure of facilities due to unforeseen conditions; · Technology innovations; or · Other projects that result in the betterment of the asset. This fund will not be available for expenditures of a general or routine maintenance nature.	In compliance
11. Maintenance and replacement funding will be prioritized each year to ensure that capital facilities and equipment are sufficiently maintained to avoid service disruptions.	In compliance
12. The City shall require adequate financial controls to be included in the City's standard contract terms so as to provide assurance of minimum risk of and access to review compliance. Among these controls are the right to audit all provisions of contracts, the right to require appropriate levels of insurance, the right to review any financial/escrow accounts, bank letters of credit or other credit instruments, and the right to require complete financial reports if appropriate for the solicitation.	In compliance

Reserves

13. The City shall maintain a Liability Reserve Fund with a balance sufficient to fund 75% of anticipated claims expense and resulting liabilities, other than those for health benefits and workers' compensation. The Fund will be used to pay and account for such claims expense and liability, which will be identified in accordance with guidelines established by the Governmental Accounting Standards Board. Contributions from each operating fund shall be made in accordance with the fund's pro-rata share of claims expense, determined in accordance with the above mentioned guidelines.	In compliance

Financial Policies — 2015-16

Policy	Current Status
Payments in excess of departmental spending authority must be approved by the City Council. Payments for accrued claims will be paid from the Fund's reserve balance, which will have been appropriated by the City Council. Payments for unaccrued claims will be made against the Fund's current year appropriations. Payments in excess of current year appropriations for any unaccrued claims must be appropriated by the City Council at the time the payment is approved.	
14. The Workers' Compensation Fund shall maintain a budgeted claims reserve equal to 25% of budgeted claims and settlement expenses.	In compliance
15. An individual-specific stop-loss policy shall be maintained for the City Health Plan. In addition, the Employee Benefits Fund will maintain a stop-loss reserve in an amount recommended by the City's actuary. Further, the Employee Benefits Fund will maintain a cash balance equal to anticipated end-of-year claims incurred but not paid and other current liabilities.	In compliance

Debt Refinancing

Policy	Current Status
16. An advance refunding of outstanding debt shall only be considered when present value savings of at least 4.25% of the principal amount of the refunded bonds are produced, unless (1) a debt restructuring is necessary or (2) bond covenant revisions are necessary to facilitate the ability to provide services or to issue additional debt. The same requirements will normally apply to municipal utility district tax and revenue refunding bond issues approved by the City of Austin. Savings from general obligation and district bond refundings will be distributed to lessen the impact of debt service requirements in future years.	In compliance
Refundings will be done in accordance with City debt management practices, including the interest rate exchange policy approved through Resolution 20050623-014.	

The following policies shall be established for the management of the City's investment pool:

Policy	Current Status
17. Funds having negative balances in the centralized cash pool will not be charged interest.	In compliance
18. Operating and capital funds incurring a sustained negative cash balance exceeding $1 million over the course of one year, for which City management has not identified a repayment plan, will be brought to Council for direction on implementing a repayment plan.	In compliance
19. Funds on a repayment plan will be expected to repay their debt to the pool through revenue and/or assistance from other funds.	In compliance

Unbudgeted Funds

Policy	Current Status
20. The following types of funds will not be included in the City's annual budget:	In compliance
a. Funds whose revenue source is primarily donations or contributions from the public. Examples:	
· *Ellis Library Trust Fund* – accounts for donations and expenditures for the purchase of library books on the subject of mental health.	

Financial Policies — 2015-16

Policy	Current Status

- *Lady Bird Johnson Lake Beautification Fund* – accounts for donations and expenditures for the beautification of Lady Bird Johnson Lake.

b. Funds used to account for escrow or performance deposits. Examples:

- *Subdivision Participation Fund* – accounts for escrowed funds received from contractors for construction and installation of streets, sidewalks, etc.
- *Hydromulch/Erosion Control Fund* - accounts for escrowed funds received from contractors for hydromulch and erosion control.

c. Funds controlled by another legal entity. Examples:

- *Housing Assistance Fund* – accounts for proceeds from residual equity bonds issued by the Austin Housing Finance Corporation.
- *Austin Industrial Development Fund* - accounts for the administrative costs related to the Austin Industrial Development Corporation.

d. Funds used to account for the repayment of certain loans. Examples:

- *RMD Loan Fund* - accounts for the repayment of energy loans.
- *Leveraged Loan Pool Fund* – accounts for the repayment of loans made to small businesses to stimulate economic development.

Any fund not included in the annual budget will have a stated purpose and will be assigned to a responsible department that will ensure that accounts in the fund are used in accordance with the fund's stated purpose.

Letters of Credit

21. A City department may accept letters of credit for less than $10,000 from any bank or savings and loan if the total City-wide exposure for that institution is less than $250,000. — In compliance

A City department may accept any letter of credit that is 110% collateralized by an acceptable investment instrument registered in the City's name. The Treasurer's Office must receive safekeeping receipts for all collateral before the letter of credit is accepted. If the value of the collateral falls below 105% of the letter of credit value, the Treasurer's Office will make a margin call.

Letters of credit that are not collateralized, and are $10,000 or more, which are issued by an institution whose total City-wide exposure is $250,000 or more, may be accepted only if the issuer meets the following criteria:

<u>Banks</u>

- Equity capital of at least $2 million;

Financial Policies — 2015-16

Policy	Current Status
· Highland Data rating of ten (10) or higher, or core capital as a percent of total assets of at least 6.0%; and,	
· Total letters of credit held by the City at each bank totaling no more than 50% of the bank's equity capital.	
Savings and Loan Associations	
· Tangible capital (excluding reserves) of at least $2 million;	
· Highland Data rating of ten (10) or higher, or tangible capital (excluding reserves) as a percent of total assets of at least 3%; and,	
· Total letters of credit held by the City at each savings and loan totaling no more than 50% of the savings and loan's capital (excluding reserves).	
The City of Austin will draw on any letter of credit if a bank or savings and loan no longer meets the criteria. The City will not accept new letters of credit issued by institutions that do not meet these criteria.	
Each department will provide the Treasurer's Office with a quarterly report listing dollar values, by institution, of that department's letter of credit. The Treasurer's Office will prepare a quarterly report indicating total City-wide exposure at each financial institution.	

General Fund Financial Policies

Policy	Current Status
1. Current revenue, which does not include the General Fund beginning balance, will be sufficient to support current expenditures (defined as "structural balance"). Unreserved fund balances in excess of required shall normally be used to fund capital items in the operating and capital budget. However, if projected revenue in future years is not sufficient to support projected requirements, an unreserved ending balance may be budgeted to achieve structural balance.	In compliance
2. Fiscal notes provided Council shall include initial costs of a program/project and the operations costs for a minimum of five years. Unbudgeted items would require identification of savings necessary to fund needs. Fiscal notes for reimbursement resolutions shall require the fiscal impact to debt service both in real dollars and tax rate for a minimum of five years.	In compliance
3. To improve financial planning and control, budget amendments should be infrequent and limited to cases where:	In compliance
a. Funding is required to address extraordinary circumstances resulting from a natural disaster, a public health emergency, or other similar critical need that could not have been reasonably anticipated when the budget was adopted; or	
b. There is verifiable evidence of significant costs or risks associated with delaying funding until the next budget cycle; or	
c. Errors or omissions in the Council Approved Budget require correction.	

Financial Policies – 2015-16

Policy	Current Status
Prior to City Council consideration of any budget amendment, the Budget Office will review all department and fund budgets to first determine if the new funding requirements can be met within existing appropriation limits or other appropriate revenue sources. Reserves should only be used when no other funding sources can be identified. Budget amendments resulting in recurring expenses should generally not be funded with one-time sources or revenue.	
4. Tax Increment Financing (TIF) Policy	
a. Tax Increment Financing zones should be established where revenues will recover the public cost of debt with adequate safety margin.	In compliance
b. No more than 5% of the City's tax base will be in Tax Increment Financing zones.	In compliance
<u>Capital and Debt Management</u>	
c. All Public Improvement District (PID) and TIF proposals, even "pay-as-you-go" projects, will be evaluated for service impact. A five-year fiscal note must accompany any request to establish a PID or TIF including repayment terms of any interfund borrowing.	In compliance
d. All approved PID or TIF debt issuances supported by a district's revenues are subject to the following criteria:	In compliance
i. Coverage Tests - The project should provide for revenues, net of overlapping taxes, of 1.25 times maximum annual debt service requirement. The issuance of TIF bonds may be considered prior to achieving coverage ratio of 1.25 if a developer or property owner provides a credit enhancement such as a letter of credit or bond insurance from an AAA rated financial institution for the entire amount of the debt issue.	
ii. In the event that there is insufficient TIF increment revenues to retire TIF bonds, which event consequently requires that the credit enhancement mechanism be called upon to service the TIF bonded indebtedness, contingent liability to reimburse a credit-enhancer would be the sole liability of the developer or its affiliates.	
iii. In the event that there are changes in the rating of the financial institution providing credit enhancement, then that institution shall be replaced with a "AAA" rated financial institution within 90 days; and in the event that no replacement of a "AAA" rated institution is provided, no further TIF bonds in advance of the 1.25 coverage ratio will be provided for any additional TIF projects undertaken by the developer or its affiliates.	
iv. Additional Bonds Test - The project should include an additional bonds test parallel to the coverage test.	
v. Reserve Fund - The project should include a debt service reserve fund equal to the maximum annual debt service requirements.	

Financial Policies — 2015-16

Policy	Current Status
vi. Limitations on Amount of PID/TIF Bonds - The total amount of PID/TIF indebtedness will be included and managed as part of the City's overlapping debt and the total amount of PID/TIF debt outstanding should generally not exceed 20% of the City's outstanding general obligation indebtedness.	
vii. PID bonds should be limited to those projects which can demonstrate the ability to support the debt either through its own revenues or another pledge source other than ad valorem taxes. PID/TIF bond authorizations should remain in effect for no more than five years from the date of City Council approval.	
e. All approved PID or TIF debt issuances must mature on or before the termination date of the respective PID or TIF district, and, further, all bonds must also conform to the district's Financial Plan by maturing on or before the Plan's projected date by which all district expenses would be paid, including repayment of bonds.	In compliance
f. The City will not propose the issuance of any unrated, high-yield PID/TIF bond that could be labeled a "high risk bond" except for small (less than $5 million) private placements coordinated with the City's Financial Advisor.	In compliance
All projects must be carefully evaluated for credit worthiness and meet the criteria above whether or not a credit rating is obtained.	
g. The City should use PID/TIF bonds only when other options have been considered.	In compliance
5. A tax abatement ordinance and policy will be established, as necessary, according to State law and in accordance with Council guidelines and criteria for economic development. There is currently no tax abatement ordinance in effect.	In compliance
6. Debt will not be used to fund current expenditures.	In compliance
7. Each year, the City Manager's Budget shall reflect an ad valorem tax rate that helps sustain existing core service levels. The year-to-year increase of actual revenue from the levy of the ad valorem tax shall generally not exceed 8% (Peveto limit):	In compliance
a. excluding taxable value gained through annexation or consolidation;	
b. excluding the value gained through new construction;	
c. excluding expenditure increases required for General Obligation Debt Service; and	
d. not excluding the valuation gained or lost through revaluation or equalization programs.	
8. As part of the annual budget process, the City Council shall adopt by resolution a maximum approved ad valorem tax rate that the Council may consider for the upcoming fiscal year consistent with State law. The resolution will establish the date(s) the Council will adopt and levy the ad valorem tax rate. The actual tax rate adopted by the City Council after its budget deliberations may be lower than the approved rate, but it will not be higher.	In compliance

Financial Policies — 2015-16

Policy	Current Status
9. Property values shall be appraised, at a minimum, every two years.	In compliance
10. The City shall encourage the Tax Assessor-Collector to follow an aggressive policy of collecting property tax revenues. An average collection rate of at least 98% of current levy shall be maintained.	In compliance
11. Charges for services and other revenues shall be examined at a minimum of once every five years and adjusted as deemed necessary to respond to changes in cost of service.	In compliance

Reserves

Policy	Current Status
12. A General Fund Emergency Reserve Fund of 6% of total fund requirements shall be budgeted annually. The Emergency Reserve Fund shall be used to provide for temporary financing for unanticipated or unforeseen extraordinary needs of an emergency nature; for example, costs related to a natural disaster or calamity or an unexpected liability created by Federal or State legislative action. Funds shall be allocated from the Emergency Reserve Fund only after an analysis has been prepared by the City Manager and presented to City Council. The analysis shall provide sufficient evidence to establish that the remaining balance is adequate to offset potential downturns in revenue sources and provide a sufficient cash balance for daily financial needs. The analysis shall address the nature of the approved expenditure and the revenue requirement in subsequent budget years. Prior to allocating funds from the Emergency Reserve Fund, the City Council shall find that an emergency or extraordinary need exists to justify the use of these funds. Funds shall be allocated each year in the budget process to replace any use of the Emergency Reserve Fund during the preceding fiscal year to maintain the balance of the Emergency Reserve Fund at the level set above.	In compliance
13. A General Fund Reserve for Budget Stabilization shall be maintained to provide financial stability for the General Fund during economic downturns through the capture at each fiscal year end of any excess revenue and unspent appropriations. During the annual budget process, up to one-third of the total amount of this reserve may be appropriated to fund capital items or other one-time costs each year.	In compliance
14. Combined, the Emergency Reserve and Budget Stabilization Reserve should be at least 12% of total fund requirements.	In compliance
15. A General Government Capital Contingency of at most 3% of capital expenditures, but not less than $2,000,000, shall be budgeted annually.	In compliance

Financial Policies — 2015-16

Policy		Current Status
	General Debt Management Policies	
1.	The City shall use several methods of debt issuance, including selling bonds competitively, by negotiated sale, or through private placement. The City may issue bonds by negotiated sale when appropriate, based on prevailing market conditions, size or structure of the planned issuance, or other factors. The City shall use the competitive sale method when issuing general obligation bonds, unless a negotiated sale or private placement would be more advantageous.	In compliance
2.	The City shall use competitive procurement methods to select professional firms used in the bond issuance process.	In compliance
3.	The City's financial advisor must be a firm that is independent of banking, underwriting, or other interests to assure that the selected financial advisor can effectively represent the City in negotiations with bankers, underwriters, and other service providers needed for the issuance of debt.	In compliance
	General Obligation Debt Financial Policies	
1.	A fund balance for the General Obligation Debt Service Fund of at least 10% of total general obligation debt service requirements shall be maintained to ensure the City's ability to meet debt service payments in spite of tax revenue shortfalls or fluctuations in interest rates.	In compliance
2.	The term of long-term debt generally shall not exceed the expected useful life of the capital asset being financed and in no case shall it exceed 20 years.	In compliance
3.	The ratio of net debt (total outstanding tax supported general obligation debt less G.O. Debt Service Fund balance) to Total Assessed Valuation shall not exceed 2.0%. This excludes debt of overlapping jurisdictions. The City shall structure its bond issuance to achieve and maintain a debt-to-assessed-value of 2.0% or less.	In compliance
4.	The ratio of Debt Service to Total Expenditures (operating expenditures and debt service combined) shall not exceed approximately 20%.	In compliance
5.	Bond sales shall be structured to achieve level debt service payments.	In compliance
6.	Interest earnings from bond proceeds for general government projects (excluding projects for enterprise funds) shall be deposited in and retained by the debt service fund (preferred practice) unless otherwise required by bond ordinance or used to fund future CIP projects.	In compliance
7.	Timing of general obligation bond elections shall be determined by the inventory of current authorized unissued bonds remaining to be sold. An estimated 2 years of authorized unissued bonds shall remain before an election will be held.	Not in compliance. In FY12, the City conducted a bond election with 4 years of authorized unissued bonds remaining.

Financial Policies — 2015-16

Policy		Current Status
8.	The total dollar amount of bond election propositions recommended to the voters shall not exceed the City's estimated ability to issue said bonds within a normal 6 year period.	In compliance
9.	The use of reimbursement resolutions shall be encouraged as a cash management tool for general obligation debt funded projects. Reimbursement resolutions may be used for any project which is on the bond sale schedule for the following year.	In compliance
10.	Reimbursement resolutions may be used for other projects if the projects are revenue-supported, funded within a department's operating budget, or included on the schedule of capital projects to be funded by cash in a subsequent year.	In compliance
11.	It is the City's priority to fund capital expenditures with cash or voter-approved debt. However, non-voter-approved debt may be used for capital expenditures as an alternative to lease/purchase or other financing options if the capital expenditure is: · Urgent; · Unanticipated; · Necessary to prevent an economic loss to the City; · Results in an economic gain to the City within a reasonable time; or · Non-voter approved debt is the most cost effective financing option available.	In compliance
12.	The average maturity of non-voter approved debt shall not exceed the average life of the capital items financed.	In compliance
13.	Capital items financed with non-voter approved debt shall have a value of at least $10,000 and a life of at least four years.	In compliance

Austin Energy Financial Policies

1.	The term of debt generally shall not exceed the useful life of the asset, and in no case shall the term exceed 30 years.	In compliance
2.	Capitalized interest shall only be considered during the construction phase of a new facility if the construction period exceeds 7 years. The time frame for capitalizing interest may be 3 years but not more than 5 years. Council approval shall be obtained before proceeding with a financing that includes capitalized interest.	In compliance
3.	Principal repayment delays shall be 1 to 3 years, but shall not exceed 5 years.	In compliance
4.	Austin Energy shall maintain either bond insurance policies or surety bonds issued by highly rated ("AAA") bond insurance companies or a funded debt service reserve or a combination of both for its existing revenue bond issues, in accordance with the Combined Utility Systems Revenue Bond Covenant.	In compliance

Financial Policies — 2015-16

Policy	Current Status
5. A debt service reserve fund shall not be required to be established or maintained for the Parity Electric System Obligations so long as the "Pledged Net Revenues" of the System remaining after deducting the amounts expended for the Annual Debt Service Requirements for Prior First Lien and Prior Subordinate Lien Obligations is equal to or exceeds one hundred fifty per cent (150%) of the Annual Debt Service Requirements of the Parity Electric Utility Obligations. If the "Pledged Net Revenues" do not equal or exceed one hundred fifty per cent (150%) of the Annual Debt Service Requirements of the Parity Electric Utility Obligations, then a debt service reserve fund shall be established and maintained in accordance with the Supplemental Ordinance for such Parity Electric System Obligations.	In compliance
6. Debt service coverage of a minimum of 2.0x shall be targeted for the Electric Utility Bonds. All short-term debt, including commercial paper, and non-revenue obligations will be included at 1.0x.	In compliance
7. Short-term debt, including commercial paper, shall be used when authorized for interim financing of capital projects and fuel and materials inventories. The term of short-term debt will not exceed 5 years. Both Tax-Exempt and Taxable commercial paper may be issued in order to comply with the Internal Revenue Service Rules and Regulations applicable to Austin Energy. Total short-term debt shall generally not exceed 20% of outstanding long-term debt.	In compliance
8. Commercial paper may be used to finance capital improvements required for normal business operation for Electric System additions, extensions, and improvements or improvements to comply with local, state and federal mandates or regulations. However, this shall not apply to new nuclear generation units or conventional coal generation units. Commercial paper will be converted to refunding bonds when dictated by economic and business conditions. Both Tax-Exempt and Taxable refunding bonds may be issued in order to comply with the Internal Revenue Service Rules and Regulations applicable to Austin Energy. Commercial paper may be used to finance voter approved revenue bond projects before the commercial paper is converted to refunding bonds.	In compliance
9. Ongoing routine, preventive maintenance should be funded on a pay-as-you-go basis.	In compliance
10. Austin Energy shall maintain a minimum quick ratio of 1.50 (current assets less inventory divided by current liabilities). The source of this information should be the Comprehensive Annual Financial Report.	In compliance
11. Austin Energy shall maintain operating cash equivalent to 45 days of budgeted operations and maintenance expense, less power supply costs.	In compliance
12. Net Revenue generated by Austin Energy shall be used for General Fund transfers, capital investment, repair and replacement, debt management, competitive strategies, and other Austin Energy requirements such as working capital.	In compliance

Financial Policies — 2015-16

Policy — **Current Status**

13. The General Fund transfer shall not exceed 12% of Austin Energy three-year average revenues, calculated using the current year estimate and the previous two years' actual revenues from the City's Comprehensive Annual Financial Report. — In compliance

14. Capital projects should be financed through a combination of cash, referred to as pay-as-you-go financing (equity contributions from current revenues), and debt. An equity contribution ratio between 35% and 60% is desirable. — In compliance

15. A Repair and Replacement Fund shall be created and established. Moneys on deposit in the Repair and Replacement Fund shall be used for providing extensions, additions, replacements and improvements to the Electric System. Net revenues available after meeting the General Fund Transfer, capital investment (equity contributions from current revenues) and 45 days of working capital may be deposited in the Repair and Replacement Fund. The targeted balance shall not exceed 50% of the previous year's electric utility depreciation expense, which is at a level necessary to keep the electric system in good operating condition or to prevent a loss of revenues. — In compliance

16. A Strategic Reserve Fund shall be maintained to include three components: — Not in compliance. Expected to be fully replenished by FY 2017-18.

    · An Emergency Reserve with a minimum of 60 days of non-power supply operating requirements.

    · Up to a maximum of 60 days additional non-power supply operating requirements set aside as a Contingency Reserve.

    · Any additional funds over the maximum 120 days of non-power supply operating requirements may be set aside in a Rate Stabilization Reserve.

    The Emergency Reserve shall only be used as a last resort to provide funding in the event of an unanticipated or unforeseen extraordinary need of an emergency nature, such as costs related to a natural disaster, emergency or unexpected costs created by Federal or State legislation. The Emergency Reserve shall be used only after the Contingency Reserve has been exhausted.

    The Contingency Reserve shall be used for unanticipated or unforeseen events that reduce revenue or increase obligations such as extended unplanned plant outages, insurance deductibles, unexpected costs created by Federal or State legislation, and liquidity support for unexpected changes in power supply costs for Austin Energy customers.

    In the event any portion of the Contingency Reserve is used, the balance will be replenished to the targeted amount within two (2) years.

    A Rate Stabilization Reserve shall be maintained for the purpose of stabilizing electric utility rates in future periods. The Rate Stabilization Reserve may provide funding for: (1) deferring or minimizing future rate increases, (2) new generation capacity construction and acquisition costs and (3) balancing of annual power supply costs. The balance shall not exceed 90 days of power supply costs.

Financial Policies — 2015-16

Policy	Current Status
Funding may be provided from net revenue available after meeting the General Fund Transfer, capital investment (equity contributions from current revenue), Repair and Replacement Fund, and 45 days of working capital.	
17. Electric rates shall be designed to generate sufficient revenue, after consideration of interest income and miscellaneous revenue, to support (1) the full cost (direct and indirect) of operations including depreciation, (2) debt service, (3) General Fund transfer, (4) equity funding of capital investments, (5) requisite deposits of all reserve accounts, (6) sufficient annual debt service requirements of the Parity Electric Utility Obligations and other bond covenant requirements, if applicable, and (7) any other current obligations. In addition, Austin Energy may recommend to Council in the budget directing excess net revenues for General Fund transfers, capital investment, repair and replacement, debt management, competitive strategies and other Austin Energy requirements such as working capital. In addition to these requirements, electric rates shall be designed to generate sufficient revenue, after consideration of interest income and miscellaneous revenue, to ensure a minimum debt service coverage of 2.0x on electric utility revenue bonds. A rate adequacy review shall be completed every five years, at a minimum, through performing a cost of service study.	In compliance
18. A decommissioning trust shall be established external to the City to hold the proceeds for moneys collected for the purpose of decommissioning the South Texas Nuclear Project. An external investment manager may be hired to administer the trust investments.	In compliance
19. The master ordinance of the Parity Electric System Obligations does not require a debt service reserve fund. Austin Energy will maintain a minimum of unrestricted cash on hand equal to six months debt service for the then outstanding Parity Electric System Obligations.	In compliance
20. Current revenue, which does not include the beginning balance, will be sufficient to support current expenditures (defined as “structural balance”). However, if projected revenue in future years is not sufficient to support projected requirements, ending balance may be budgeted to achieve structural balance.	In compliance
21. A Non-Nuclear Plant Decommissioning Fund shall be established to fund plant retirement. The amount set aside will be based on a decommissioning study of the plant site. Funding will be set aside over a minimum of four (4) years prior to the expected plant closure.	In compliance

Financial Policies — 2015-16

Policy	Current Status
Austin Water Financial Policies	
1. The term of debt generally shall not exceed the useful life of the asset, and shall not generally exceed 30 years.	In compliance
2. Capitalized interest shall only be considered during the construction phase of a new facility, if the construction period exceeds 7 years. The time frame for capitalizing interest may be 3 years but not more than 5 years. Council approval shall be obtained before proceeding with a financing that includes capitalized interest.	In compliance
3. Principal repayment delays on revenue bonds shall be 1 to 3 years, but shall not exceed 5 years.	In compliance
4. Each utility shall maintain a fully funded debt service reserve for its existing revenue bond issues and future issues, in accordance with the Combined Utility Systems Revenue Bond Covenant.	In compliance
5. Debt service coverage of at least 1.50x shall be targeted.	In compliance
6. Short-term debt, including tax-exempt commercial paper, shall be used when authorized for interim financing of capital projects. The term of short-term debt shall not exceed 5 years. Commercial paper will be converted to refunding bonds when appropriate under economic and business conditions. Total short-term debt shall generally not exceed 20% of outstanding long-term debt.	In compliance
7. Commercial paper may be used to finance new water and wastewater plants, capital expansions, and growth-related projects as well as to finance routine capital improvements required for normal business operation. Commercial paper for the necessary amount may also be used to finance improvements to comply with local, state and federal mandates or regulations.	In compliance
8. Capital improvement projects for new water and wastewater treatment plants, capital expansions, and growth-related projects that are located in the Drinking Water Protection Zone (DWPZ) will be identified and submitted, as part of the annual budget process, to the following Boards and Commissions: Water and Wastewater Commission, Resource Management Commission, Environmental Board, Planning Commission, and the Zoning and Platting Commission. These Boards and Commission will review growth-related DWPZ capital projects spending plans, obtain Board and Commission and citizen input, review consistency with Imagine Austin Comprehensive Plan, review effect on growth within the DWPZ, and make recommendations on project approval for inclusion in Austin Water Utility's 5-year capital spending plan. A public hearing will be held during the City's annual budget review process to provide citizens an additional opportunity to comment on growth related projects located within the DWPZ.	In compliance
9. Ongoing routine, preventive maintenance should be funded on a pay-as-you-go basis.	In compliance

Financial Policies — 2015-16

Policy	Current Status
10. Capital projects should be financed through a combination of cash, referred to as pay-as-you-go financing (equity contributions from current revenues), and debt. An equity contribution ratio of at least 20% is desirable.	In compliance
11. The Austin Water Utility shall maintain a minimum quick ratio of 1.50 (Current Assets less inventory divided by Current Liabilities). Source of information shall be the Comprehensive Annual Financial Report.	Not in Compliance. Quick ratio is 1.49 based on 2014 CAFR.
12. The Austin Water Utility shall maintain operating cash reserves equivalent to a minimum of 60 days of budgeted operations and maintenance expense.	In compliance
13. Revenue generated by the Austin Water Utility from Debt Service Coverage requirements shall be used for General Fund transfers, capital investment, or other Austin Water Utility requirements such as working capital reserve or non-CIP capital.	In compliance
14. Austin Water Utility rates shall be designed to generate sufficient revenues to support the full cost (direct and indirect) of operations and debt, provide debt service coverage and meet other revenue bond covenants, if applicable, and ensure adequate and appropriate levels of working capital.	In compliance
15. The General Fund Transfer shall not exceed 8.2% of the Austin Water Utility three-year average revenues, calculated using the current year estimate at March 31 and the previous two years' actual revenues from the City's Comprehensive Annual Financial Report. Revenue collected from the Reserve Fund Surcharge will be included in the General Fund Transfer calculation, however any use or transfer of the reserve fund back into the operating fund in the future due to revenue loss will not be included in the total revenues to calculate the General Fund Transfer.	In compliance
16. A Water Revenue Stability Reserve Fund shall be created and established for the purpose of offsetting current year water service revenue shortfalls below budgeted revenue levels. The target funding level for the Reserve Fund is 120 days of the budgeted water operating requirements of Austin Water Utility, which includes operations and maintenance, and other operating transfers, but excludes debt service and other transfers. In the event that any portion of the Reserve Fund is used, the balance will be replenished to the target level within 5 years. Upon creation of the Reserve Fund, the goal to reach the target funding level of 120 days of budgeted water operating requirements will be no later than 5 years. If the fund is drawn down prior to reaching the 120 day target during the first 5-year development period, the reserve fund surcharge shall not be lower than it was during the year in which the draw down occurred until such time as the fund reaches its 120 days of operating costs.	In compliance

Financial Policies — 2015-16

Policy		Current Status
	Sources of funding for the Reserve Fund may include a Reserve Fund volumetric surcharge charged to all customer classes, operating reserves in excess of 60 days of operating requirements, and any available net water service revenue after meeting all obligations of the Austin Water Utility.	
	The City Council must approve all Reserve Fund utilization of funds through a separate action during the year. The Reserve Fund shall only be used to offset a current year water service revenue shortfall where actual water service revenue is less than the budgeted level by 10% or greater. The maximum use of the Reserve Fund in any fiscal year is 50% of the existing balance at the time of request for Council action.	
	When the target levels of the Reserve Fund are reached, any Reserve Fund Surcharge shall be reduced to levels sufficient to only maintain the goal of 120 days of operating requirements as may be necessitated by changes in budgeted operating costs over time.	
	All interest earned by the Reserve Fund account shall remain in the Reserve Fund in order to offset funding and replenishment requirements and to minimize rate impacts for water customers.	
	Airport Financial Policies	
1.	Debt service coverage shall be targeted at a minimum of 1.25x.	In compliance
2.	The debt service reserve shall be funded at the same time long-term debt is issued (typically equal to 1 year's average debt service requirement).	In compliance
3.	The term of long-term debt shall not exceed the expected useful life of the capital asset being financed, and in no case shall the life of the debt exceed 30 years.	In compliance
4.	Capitalized interest during construction shall generally not exceed 5 years. Council approval shall be obtained before proceeding with a financing that includes capitalized interest.	In compliance
5.	The Airport shall maintain a ratio of current assets plus operating reserve to current liabilities of at least 1.5 times. Source of information shall be the Comprehensive Annual Financial Report.	In compliance
6.	The Aviation Fund shall maintain working capital that is equivalent to 60 days of budgeted operations and maintenance expense, in accordance with bond ordinance provisions. (Current assets plus operating reserve less current liabilities.)	In compliance
	Drainage Utility Fund Financial Policies	
1.	A Drainage Utility Fund will be established to account for all revenues and all operational expenses related to this activity.	In Compliance
2.	The department that manages the Drainage Utility Fund shall recommend to Council in the budget setting rates sufficient to pay all requirements including debt service and to maintain a fund balance which is equivalent to 30 days of budgeted operations and maintenance.	In Compliance

Financial Policies – 2015-16

Policy	Current Status

Austin Resource Recovery Financial Policies

1.	The Austin Resource Recovery Fund shall establish and fund a reserve to provide for the closure and monitoring of the City's landfills in compliance with federal regulations.	Not in compliance. ARR utilizes CIP and operating budgets.
2.	The department that manages the Austin Resource Recovery Fund shall recommend to Council in the budget setting rates sufficient to pay all requirements including debt service and to maintain a fund balance which is equivalent to 30 days of budgeted operations and maintenance.	Not in compliance. Anticipate compliance by FY 2016-17.

Fleet Services Financial Policies

1.	Fleet Services Department shall maintain, in a separate Fleet Fuel Reserve Fund (Reserve Fund), an amount that may be drawn upon in the event significant fuel losses occur in a given fiscal period. The maximum ending balance of the fund shall not exceed 20% of total budgeted fuel costs or $3 million, whichever amount is less. Funding shall consist of a fixed price per gallon (with the exception of compressed natural gas and propane) to be charged to each user department as determined each budget year. Fleet Services Department is responsible for calculating the annual per gallon fixed price during the City's annual budget process. The amount collected each fiscal year is to be deposited in the Fleet Fuel Reserve Fund in the same year as collected. Upon determination that fuel costs exceeded fuel revenues in any given year in an amount greater than $500,000, the Reserve Fund may be utilized to fund the deficiency.	In compliance

Austin Convention Center Financial Policies

1.	Debt service reserves shall be funded in accordance with the respective bond covenants for Austin Convention Center's Hotel Occupancy Tax Revenue bonds and Palmer Events Center's Town Lake Community Events Center Venue Project bonds.	In compliance
2.	The term of long-term debt shall not exceed the expected useful life of the capital asset being financed, and in no case shall the life of the debt exceed 30 years.	In compliance
3.	Capitalized interest during construction shall not exceed 5 years. Council approval shall be obtained before proceeding with financing that includes capitalized interest.	In compliance
4.	The Austin Convention Center shall maintain an operating reserve that is equivalent to 180 days of operating and maintenance expenses for both the Austin Convention Center and the Palmer Events Center operating funds (as required by its Town Lake Community Events Venue bond covenants) .	In compliance

Financial Policies — 2015-16

Policy		Current Status
	In the event that operating reserves drop below the policy, and to the extent that respective facility funds allow (i.e., Austin Convention Center facility revenue and Hotel Occupancy Tax pledged toward the related bonds, and Palmer Events Center revenues pledged toward Town Lake Community Events Venue bonds), the balance will be replenished to the target level within 5 years. The operating reserve fund will only be used to offset a current year revenue shortfall where actual revenue is less than the budgeted level by 10% or greater.	
5.	A capital reserve shall be maintained that is equivalent to 50% of the annual depreciation expense as reported in the prior year Comprehensive Annual Financial Report. The reserve may be used for capital projects that provide additions, replacements and improvements to Austin Convention Center facilities.	In compliance
6.	Ongoing routine, preventative maintenance should be funded on a pay-as-you-go basis.	In compliance

Austin Energy Financial and Performance Review
Navigant Consulting, Inc. and Fox Smolen & Associates, Inc.
Analysis of
Transfers from Municipal Utilities to General Government

Background

In governmental accounting, expenses and revenues are recorded in "funds". Expenses to deliver basic services such as police, fire, parks and libraries are recorded in the General Fund. Revenue to pay for those services is recorded in the General Fund. Enterprise funds are established to record the expenses and revenues of business-like activities such as Austin Energy (AE), Austin Water Utility (AWU) and the aviation department. Expenses are financed or recovered through user charges. It is common practice in many municipally-owned utilities to make transfers or cost reimbursements to the municipal government with which they are associated, either as an operating department or a separate agency.

The rating agencies that assess the credit worthiness of bonds issued by cities and municipally-owned utilities review the relationship between the city and the utility. The credit worthiness of each impacts the city's and the utility's costs to issue bonds and ultimately the cost to the taxpayer or ratepayer to repay the bonds. The rating agencies review the utility transfers in establishing bond ratings. Moody's Investors Service, Inc. (Moody's) explains its view on General Fund Transfers for rating U. S. Public Power Electric Utilities as follows:

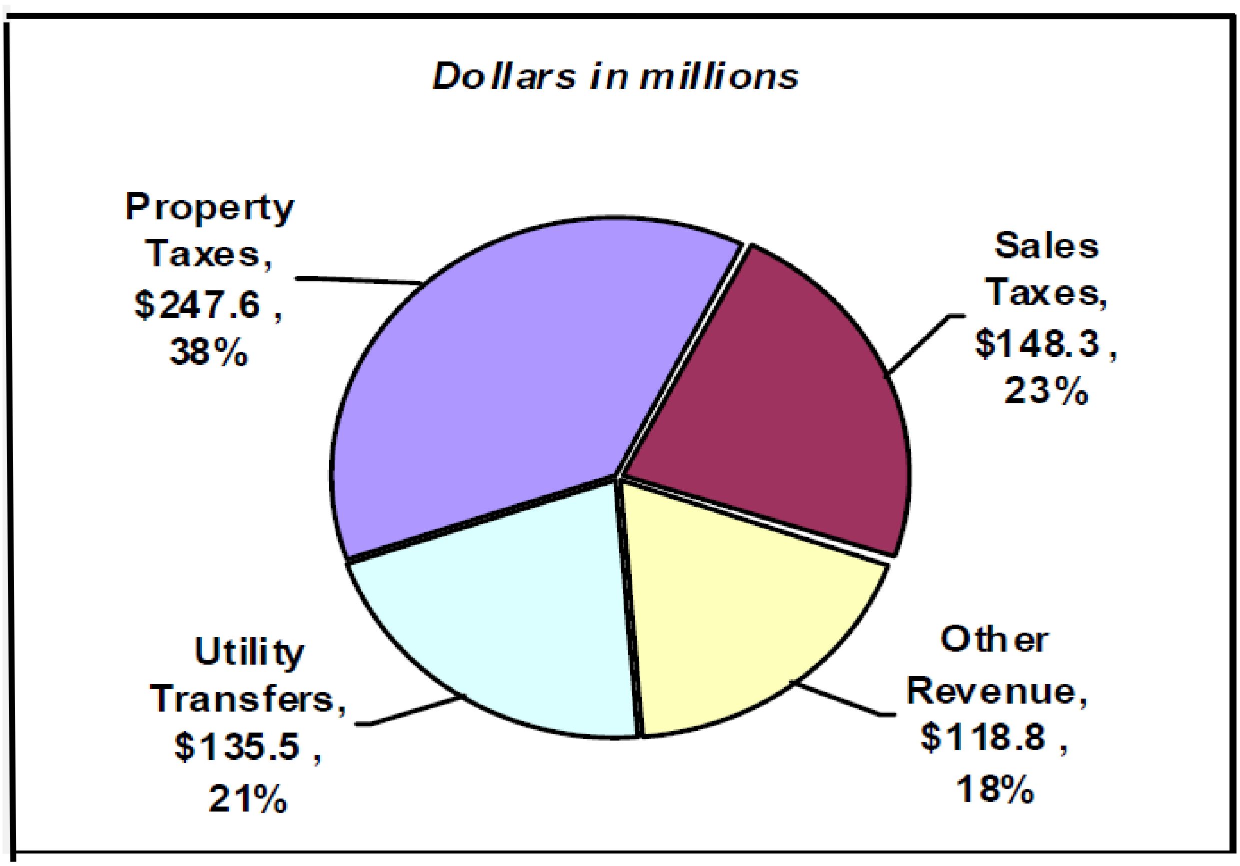
> The strength of the relationship between a utility and local government can also be measured by the General Fund Transfer (GFT). GFT is the transfer of surplus utility revenues from the utility to the city's General Fund. The transfer can be significant both directly and indirectly. If transfers from the utility represent a large part of the city's overall operating revenues, then there is a greater likelihood that the city will ensure the electric enterprise remains healthy. However, when the transfer represents a substantial portion of the utility's own resources, this could have a negative rating impact. The U.S. median of the GFT as a percentage of utility gross revenues is 7%.
>
> Moody's believes an established GFT transfer policy that is drawn up and accepted by both the utility and local government adds credit strength for both entities. While it is reasonable that some form of financial return be provided by the utility enterprise to the general government, GFT transfers that are set politically on an annual basis are less

predictable and more challenging for the utility to budget for and can be a negative credit factor. Furthermore, GFT levels that lead to high or uncompetitive electric retail rates or that drain internal funds from the utility needed for maintenance and repair can also weaken the credit rating.[1]

AE and the City of Austin

The City of Austin's General Fund receives revenue from four primary sources: property taxes, sales taxes, utility transfers and various other sources such as franchise fees, fines, forfeitures, penalties, licenses, permits, inspections, charges for services and interest. The following chart from The City of Austin, Texas 2010-2011 Approved Budget (Volume 1, page A-22) shows the percent of revenue from each source for the City of Austin's General Fund.

General Fund Revenue -- $650.2 million



1 Moody's Investors Service, Inc. (April 2008) Rating Methodology. *U.S. Public Finance - U.S. Public Power Electric Utilities*

The General Fund is budgeted to receive transfers from Austin Energy and Austin Water Utility at 9.1% and 8.2% of gross revenue, respectively for FY 2011. AE's transfer to the General Fund for FY 2011 is $103.0 million, an increase of $2.0 million from FY 2010.[2]

Worked Performed

The City of Austin engaged the Navigant Consulting, Inc. (NCI) team to provide a study of best practices among municipally-owned electric utilities and compare those practices with AE and the City of Austin. NCI subcontracted with Fox, Smolen & Associates (FSA) to perform this study by surveying other municipally-owned utilities. This report provides the survey results and addresses the ratemaking treatment of payments for franchise fees and property taxes that are made to city governments by investor–owned utilities. In Texas, these payments by investor-owned utilities are regulated through their inclusion in the cost of service used to set rates by the Public Utility Commission of Texas (PUCT). Lastly, the study will discuss guidance provided to the PUCT by the Public Utility Regulatory Act (PURA) in assessing the reasonableness of a municipally owned utility transfers to the city government.

The NCI Team researched various public documents such as budgets, financial statements, and city ordinances. We contacted 13 municipally owned utilities (including AE) to survey. We received completed responses from 10. We reviewed sections of the PURA that pertain to rate-setting for municipally owned utilities. We also reviewed information provided by AE that consisted of bond rating documents and surveys compiled by the American Public Power Association (APPA).

The transfers and cost reimbursements examined in this study consist of the General Fund Transfer, the funding of Economic Development, and the treatment of municipal lighting services and other services provided by the electric utilities to their related city government.

[2] The City of Austin, Texas (November 18, 2010). *2010 – 2011 APPROVED BUDGET*. (VOLUME I, p. A-31).

The Survey

The utilities selected for the survey included municipally-owned utilities, six in Texas and seven outside of Texas. The Texas utilities included AE, Georgetown Utility Services, Denton Municipal Electric, College Station Utilities, CPS Energy, and Lubbock Power and Light. The non-Texas utilities were Orlando Utility Commission, City Utilities of Springfield, Gainesville Regional Utilities, Seattle City Light, Los Angeles Department of Water and Power, Memphis Light, Gas and Water Division, and Nashville Electric. Los Angeles Department of Water and Power, Memphis Light, Gas and Water Division, and Nashville Electric did not respond.

FSA separated the response to the survey questions into four tables entitled General Utility Information, General Fund Transfers, funding of Economic Development and Other Payments. The total amounts transferred from the utilities to the city governments was summarized and presented as a percentage of total electric revenue. Most of the information compiled was from FY 2008-2009 because that was the most recent information available. CPS Energy and City Utilities of Springfield, being the exceptions, provided 2010 data.

General Utility Information

Austin Energy's fiscal year end is September 30. It maintains an AA- credit rating from Fitch and is a city department under the oversight of a General Manager who reports to Austin's City Manager. AE provides the customer service function for the electric, water, wastewater, drainage and transportation utilities. The electric base rate has remained unchanged since 1994. AE recovers its fuel cost through a fuel adjustment factor which is a passthrough of fuel and related cost to its customers.

To compare Austin Energy to the other utilities surveyed, the following information was requested from each utility:

- The utility's fiscal year
- The utility's credit rating
- Whether the utility was a city department or a separate agency

- How the utility is governed, separate board or city council
- What other service the electric utility provides
- The utility's most recent electric base rate change and the system-wide percentage change
- When the utility expects to change its rate in the future
- How the utility recovers its fuel costs
- If the utility's transfer is governed by State law

The results show that most of the utilities surveyed were also governed by City Councils, but CPS Energy, the Orlando Utility Commission and the City Utilities of Springfield had separate Boards appointed by the City Councils. Almost all of the utilities provide water-related services, two provide natural gas and one provides telecommunications services. Rate changes mostly occurred from 1994 to October 2010. The most recent being Lubbock's utility which needed to realign their rates (with no increase) to reflect the purchase of Excel Energy's Lubbock-based assets, ending the decades-old practice of competition for Lubbock customers. All but 3 utilities adjusted their rates within the last 2 years and only one other utility – Georgetown, like AE, has not increased rates since the 1990's. The system-wide increases in rates ranged from 6% for College Station in 2010 to 18.2% for Orlando in 2009. City Utilities of Springfield had a significant increase of 16%, also in 2010. Austin Energy and Georgetown currently have their rates under review. Most of the utilities used a Fuel Adjustment Clause to adjust for variances in fuel cost. CPS Energy has some fuel in base rates and uses the fuel adjustment clause to collect and refund fuel costs above or below the level of cost in base rates. All the utilities, except Seattle and CPS Energy, have fiscal years ending September 30. The credit ratings were all in the "A" range. All of the utilities, except the Orlando, Springfield and Gainesville Regional Utilities, have State laws governing the recovery of the general fund transfer.

General Fund Transfer

The City of Austin has a financial policy to address the transfers from the utilities to the General Fund. The transfer method uses a percent of gross revenue (9.1% for AE and 8.2% for AWU). Transfers are calculated based on a rolling average of actual revenue during the last two years and estimated revenue in the current year. The transfer from the electric utility of $103 million in FY 2011 increased by $2.0 million compared to the FY 2010 budget. Likewise, the transfer from the AWU increased by $2.3 million to $31.3 million in FY 2011. In FY 2011, transfers from the utilities total $134.3 million.

The City of Austin has maintained its transfer policy, both in the methodology and percentage and has consistently budgeted the transfer below the maximum stated in the policy. The City of Austin general fund transfer policy states[3]:

> 12. Net Revenue generated by Austin Energy shall be used for General Fund transfers, capital investment, repair and replacement, debt management, competitive strategies, and other Austin Energy requirements such as working capital.
>
> 13. The General Fund transfer shall not exceed 12% of Austin Energy three-year average revenues, calculated using the current year estimate and the previous two years' actual revenues from the City's Comprehensive Annual Financial Report.

While the policy set a cap on the percentage of the transfer at 12%, the transfer has been maintained at 9.1% of AE's revenues since 1999, except in 2002 which was 8.9%. The policy also states the transfer will be paid from the utility's net revenue thereby assuring that the utility must cover its operating expenses and debt requirements before funds can be used for the General Fund transfer. AE does not pay any amounts in lieu of property taxes, franchise fees, or miscellaneous gross receipts taxes as do the investor-owned utilities in Texas. Austin Energy's bond covenants require that the City maintain certain minimum debt service coverage ratios.

[3] The City of Austin, Texas. (November 18, 2010). *2010-2011 APPROVED BUDGET*. (Volume II, Supporting Documents-Financial Policies- Austin Energy).

To assess Austin's approach to the General Fund transfer compared to other utilities, the survey requested the following information:

- The authority to transfer funds from the electric utility to the General Fund
- How frequently the amount that is transferred is reviewed
- Does the policy contain a cap or maximum that may be transferred
- The method of calculating the transfer
- Amount transferred in the last fiscal year (2009 or 2010)
- Electric Revenue in the last fiscal year (2009 or 2010)
- Does the transfer include revenue from other services provided by the utility
- When was the policy last changed
- How is the transfer recovered in rates
- Is there a public document that addresses the General Fund transfer

The results of the survey show that there are various methods by which the transfers are calculated, most of them, similar to AE, use a variation of a % of gross revenue. The percentages for only the General Fund transfers, excluding any additional amount funded, such as economic development or street lighting, vary from 1% for Denton Municipal Electric to 13.2% of CPS Energy's 2010 electric and gas revenue and non-operating income. The City of San Antonio has a maximum of 14% on all payments to the City, including funds allocated for Economic Development which was $12 million in 2010. The average General Fund transfer rate of 9% shows AE to be slightly below the average at 8.2% of gross revenue in 2009. Seven of the 10 utilities surveyed use gross revenue as the basis for a percentage allocation and all but one Texas utility, Georgetown, use gross revenue. Georgetown applies a total of 10% to *operating revenues*, with 3% representing a franchise fee and 7% a return on investment. Denton Municipal Electric is the only utility to reduce gross revenue for fuel. Orlando uses a % of retail electric sales within the city limits plus a dividend which is a negotiated % of net income from all operations. The most complex is Gainesville Regional Utilities (GRU), which uses a calculation of a base amount that is similar to what an investor owned utility would pay plus a growth component tied to kilowatt hours (KWH) delivered. GRU also pays an incentive payment of 3% of net wholesale revenues. All but one of the utilities has city policies or ordinances that govern the parameters for the transfer. The exception was Seattle which is governed by State law. Caps for the transfer run from 6% of net investment in Denton to 14% of gross revenue at CPS Energy in San Antonio. AE's total transfers have averaged around 9% since 1999. Actual amounts of the General Fund Transfers ranged from $1,261,891 in Denton to $260,363,000in San Antonio. The City of Austin's transfer in 2009 was $95,000,000. While the amount of the transfer is reviewed annually, typically during the budget process, the methodology and rate had not changed for half the sample in the last 10 years. Georgetown and Lubbock experienced adjustments to the General Fund transfer rate in 2010. Georgetown recently made an adjustment to the percentage of franchise fee and return on investment, but the total remained at 10%. The Los Angeles Department of Water and Power did not complete the survey because of a pending referendum on the issue. For most of the utilities, the revenue used to calculate the transfer included all revenue, including fuel revenues, and the utilities used a fuel adjustment clause to collect fuel cost.

Of the six Texas utilities, two do not include the transfer as an operating expense for rate making (Austin Energy and CPS Energy). Three include the transfer as operating expense for rate making purposes or as a line item in the forecast. Three of the four out-of-state utilities recover their transfer in rates. Springfield responded that the "designed rate components are increased by amounts necessary to cover Payment in Lieu of Taxes (PILOT)". Gainesville Regional Utilities was the only out-of-state utility to fund transfers from net revenue, similar to Austin and San Antonio.

In summary, the AE's General Fund transfer methodology is much like that of the majority of the utilities surveyed. Funding the transfer from its net margin is also consistent with about a third of the sample. Like Austin, all have policies or ordinances that govern the transfer calculation and the amounts are determined during the budget process. Austin, like the majority of the municipalities with utilities, has not changed the methodology or rate applied to gross revenues in several years. This is surprising given the economic strain of the last few years. However, the AE General Fund transfer rate applied to gross revenue, although above the sample average, is within a reasonable range when considering the comparable utilities included in the survey. It is important to determine the goals of the City and utility when determining which method is best. There are no best practices as each City and utility may have unique needs which drive the method in which transfers are calculated and how often they change. The bond rating agencies want city leaders to be mindful of the impact on the municipal government and the utility and establish policies that consider both.

Economic Development Transfer

A utility's support of local economic development is a long standing practice in Texas. Before the electricity market was restructured, many investor-owned utilities offered economic development packages which included facilities and rate discounts. Since 2002, communities served by municipally-owned utilities are viewed as having a competitive advantage because they are still in a position to offer incentives.

AE budgets annually for economic development activities. Since 2007, the Electric Utility Commission, which serves as an advisory board, has submitted resolutions to the City Council stating they "recommended that ratepayers not be required to fund the Economic Growth and Redevelopment Services Office (EGRSO), particularly if Austin Energy is unable to control the spending of money it contributes to that office..."

To assess Austin's approach to the Economic Development funding compared to other utilities, the survey requested the following information:

- Do they fund economic development
- What was the amount of the funding
- What method did they use to determine funding levels
- Examples of the economic development activities funded

All six of the Texas municipal utilities surveyed fund Economic Development activities, but only one of the utilities outside Texas does. Springfield directly funds the salaries of two chamber of commerce employees. Most of the Texas utilities provided direct funding for specific projects. AE's funding for Economic Development amounted to $7,749,565 in 2009. CPS Energy allocated approximately $12 million to its Community Infrastructure and Economic

Development ("CIED") Fund in 2010. The money remains with CPS Energy until projects are approved and then funds are released. San Antonio's policies dictate that the total payments to the City of San Antonio, including economic development, cannot exceed 14% of gross revenue. Lubbock Power & Light is estimated to transfer $3 to $5 million for specific projects, which is about 3% of its electric revenue. Denton transferred $233,000 but includes this as part of its General Fund Transfer. Georgetown, College Station, and Lubbock directly fund utility related projects such as moving overhead lines underground for specific developments, for their contribution to economic development. The amount from Georgetown was not available, but they converted a section of overhead facilities to underground for certain redevelopment projects.

AE's funding for Economic Development in 2009 was .67% of gross electric revenue compared to CPS Energy at .70% percent of gross electric revenue in 2010. Lubbock estimated that 3% of its electric revenue would be used for specific projects to attract development which was the highest percentage of the utilities surveyed.

Municipal Lighting and Other Transfers

AE pays for the lighting cost for city government. In 2009, the cost was S7,488,000 for street and traffic lights.

To assess Austin's approach to Municipal Lighting compared to other utilities, the survey requested the following information:

- Is there funding for the City's street lighting or municipal electricity usage and the amounts
- Does the utility fund other city programs

In Texas, AE, Georgetown, Lubbock and College Station fund street lighting, but Denton does not. San Antonio deducts the street lighting costs from the General Fund Transfer therefore the cost of lighting is not an incremental cost to utility. Orlando and Gainesville do not fund the lights and Springfield provides street lighting, “at no charge to the City” and sets the value at $3,533,614. Seattle answered that they install and maintain the street lights.

None of the Texas utilities provide funding for municipal electricity usage. Springfield provides electricity at no charge and set this value at $1,734,817.

AE also paid $679,000 for Community Programs. No other respondent identified other similar types of transfers, except, as noted under economic development, City Utilities of Springfield who pay the salaries of two Chamber of Commerce employees.

Summary

In summary, the total transfers compared to the utility’s electric revenue ranged in percentages as shown below. The weighted average transfer was 9%, whereas Austin Energy is slightly below at 8.2%. Taking into consideration **all transfers and other funding to the City**, AE percentage of 9.5% is below the weighted average of 10%. On a percentage basis, there are five utilities that transferred less than AE and four utilities that transferred more.

Entity	General Fund Transfer	Economic Development Transfer	Municipal Electricity Funding	Street Light Funding	Other	Total Transfers and Funding	Total Electric Revenues	% of Total Transfers and Funding to Revenue	% of General Fund Transfer Only to Revenue
Austin Energy	$ 95,000,000	$ 7,749,565	$ -	$7,488,058	$ 679,000	$110,916,623	$1,162,286,000	9.5%	8.2%
Georgetown Utility Services: Note A	$ 5,328,910	$ 185,920	$ -	Note A		$ 5,514,830	$ 59,058,745	9.3%	9.0%
Denton Municipal Electric	$ 1,261,891	$ 233,000	$ -	$ -		$ 1,494,891	$ 128,511,236	1.2%	1.0%
College Station Utility	$ 8,900,000	$ 500,000	$ -	$ 1,000,000		$ 10,400,000	$ 82,904,777	12.5%	10.7%
CPS Energy: Note B	$260,363,000	$ 12,000,000	$ -	$ -		$272,363,000	$1,975,204,000	13.8%	13.2%
Lubbock Power & Light: Note C	$ 7,123,649	$ 4,000,000	$ -	$ 3,000,000		$ 14,123,649	$ 143,222,344	9.9%	5.0%
Orlando Utility Commission	$ 27,301,000	$ -	$ -	$ -	$45,900,000	$ 73,201,000	$ 704,483,000	10.4%	3.9%
City Utilities of Springfield	$ 6,346,787	$ -	$1,734,817	$ 3,533,614		$ 11,615,218	$ 226,091,993	5.1%	2.8%
Gainesville Regional Utilities	$ 34,488,250	$ -	$ -	$ -		$ 34,488,250	$ 369,874,275	9.3%	9.3%
Seattle City Light	$ 33,862,804	$ -	$ -	$ -		$ 33,862,804	$ 723,128,041	4.7%	4.7%
	$479,976,291			Weighted Average		$567,980,265	$5,574,764,411	10%	9%

Note A: Amount not provided
Note B: Includes Gas and Electric Revenue and Non-operating income
Note C: Average of amount estimated when survey completed

Rate Treatment of Franchise Fees, Property Taxes and Return for Investor-Owned Texas Utilities

Investor-owned utilities in Texas also make payments to the city government in which they serve and may pay a dividend to the owners of the utility. The payments to the cities are for property taxes and franchise fees. The payments are expenses to the utility and are recovered through rates which are set by the PUCT. The rates are established to recover operating expenses plus return. The return is set at a level to recover a reasonable return on amounts invested in the utility. The return dollars can be used to pay debt, to pay for capital additions or to issue dividends. Franchise fees, property taxes and return are included in the revenue requirement for an investor-owned utility and are recovered through the utility's base rates.

Franchise fees are paid to cities for the use of the public streets and rights of way. Beginning in 2002, the level of the fee was established by the State legislature. Fees paid to the cities served by the utilities are based on the number of kWh delivered within the city limits times a factor that was approved by the PUCT (PURA Sec. 33.008 (b)). **The amount of franchise fees paid to all cities within a utility's service territory is included in the revenue requirement and billed to all customers through the utility's base rates.**

Property taxes are assessed on the utility property within the cities, counties and school districts. The total annual property tax expense is divided by the utility's plant in service. The percentage is then applied to the plant in service to determine the amount of tax expense to include the utility's revenue requirement and billed to all customers through the utility's base rates.

The level of return is based on the utility's weighted cost of capital which includes the cost of equity measured by investors' expectations and the cost of debt which was issued to finance utility assets. The return portion of the revenue requirement is recovered through base rates.

In comparison, a municipally-owned utility does not pay franchise fees or property taxes to the city in which it serves nor does it provide dividends to investors. However, it may pay franchise fees to other municipalities within its service area. A municipally-owned utility must cover its debt and usually pays the city some type of payments whether through a General Fund transfer or payments in lieu of taxes. In a rate setting, if these charges were incurred by an investor-owned utility the rates set to recover the expenses would be charged system wide, not just to the ratepayers within the cities, counties and school district charging the fees and taxes. A return would likewise be included in the rate structure paid by all customers of the utility.

The Public Utility Regulatory Act established the PUCT which regulates the rates charged by investor-owned utilities and has appellate jurisdiction over rates established by a municipality for its electric utility. Ratepayers outside the city limits may appeal the rate ordinance adopted by a municipality, if certain requirements are met. Once those requirements are met and the appeal is heard before the PUCT and an order issued, the PUCT can establish rates for the customers outside the city limits. The PUCT must judge whether the rates set by the municipality outside the city limits are reasonable. (Sec. 33.123. REVIEW OF CERTAIN DECISIONS FOR RATES CHARGED OUTSIDE MUNICIPALITY) Sec. 36.353 of the PURA places the restrictions on the recovery of "any payment in lieu of tax" by prohibiting:

> "(a) A payment made in lieu of a tax by a municipally owned utility to the municipality by which the utility is owned may not be considered an expense of operation in establishing the utility's rate for providing utility service to a school district or hospital district.

(b) A rate a municipally owned utility receives from a school district or hospital district may not be used to make or to cover the cost of making payments in lieu of taxes to the municipality that owns the utility."

There is not a similar restriction on a General Fund transfer.

Conclusions

- The method, level, and consistent adherence to policy of the transfer between the utility and the City's General Fund affect bond ratings. The bond rating agencies consider how the transfer is established, whether both entities interests are considered, and how much is transferred each year.
- Ten municipally owned utilities were surveyed to determine the basis of the calculation for the transfer from the utility to the City General Fund. Of the ten, seven use a similar method as AE based on percent of gross revenues.
- The weighted average General Fund only transfer rate was 9% of gross revenue, whereas AE is slightly lower at 8.2% based on actual FY 2009 revenue. Taking into consideration all transfers and payments to the cities, AE is below the average of 10%, with 4 utilities higher than AE and 5 utilityes lower.
- For all surveyed, the transfer authority was established by a governing body policy or ordinance and the amount is reviewed annually during the budget process.
- Six of the ten utilities recover the cost of the transfers in base rates.
- Four of the ten utilities survey increased their base rate in 2010 and are considering another increase in either 2011 or 2012.
- Most utilities include fuel revenue in the gross revenue subject to the transfer percentage.
- It is not uncommon for utilities to include a portion of fuel costs in base rates as is done by CPS Energy.
- Texas utilities were the only utilities in the sample to fund economic development in some manner, of which all of them provided some type of funding either through paying directly for projects or other funding.